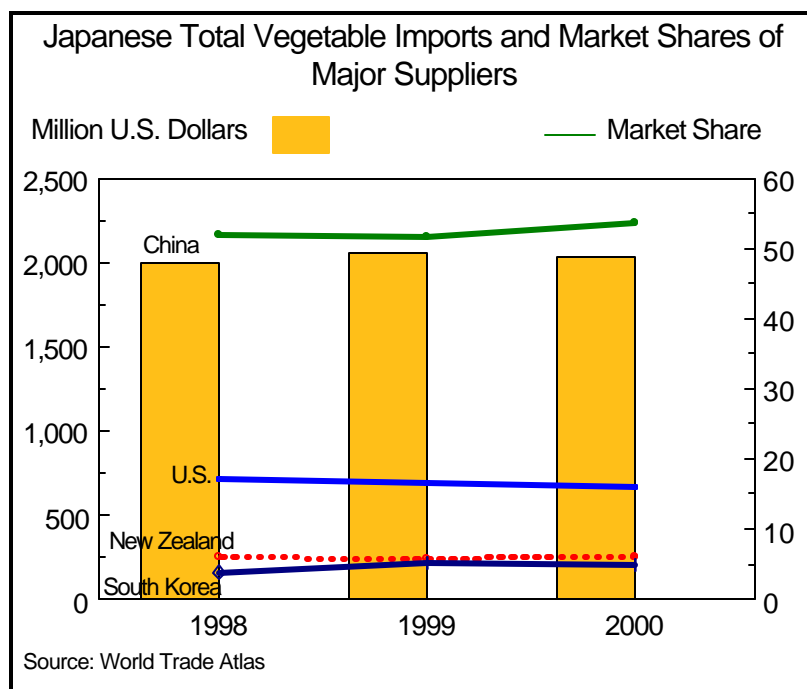


Japan Considers Safeguard Measures on Imported Vegetables Could Impact Trade from China and Other Key Suppliers

Rising Vegetable Imports Stir Concern: According to recent trade data, Japan's imports of vegetable products in calendar year (CY) 2000 were valued at \$2.03 billion, down slightly from the record import level established in 1999. During this period, China accounted for \$1.09 billion (54 percent) of Japan's total vegetable product imports, up 2 percent from 1999. Japan's imports of vegetables from the United States, the second largest supplier, were valued at \$170 million in CY 2000, down 6 percent from the previous year. Imports of vegetables from New Zealand, the third supplier, were valued at \$122 million, up 3 percent from 1999, according to World Trade Atlas data.



In response to rising imports and pressure from the Japanese food industry, Japan's Ministry of Agriculture, Forestry, and Fisheries (MAFF) has implemented preliminary safeguard investigations on imported vegetables. These measures could eventually result in restrictions on imports of certain vegetables and other agricultural products.

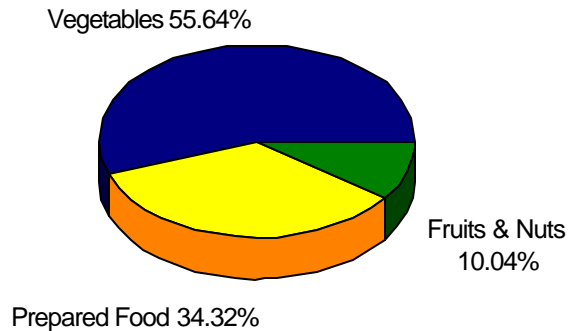
Japan Implements Formal Safeguard Actions: On December 22, 2000, Japan reported to the World Trade Organization (WTO) in Geneva, Switzerland, that it had begun a

formal investigation of its market for fresh shiitake mushrooms, welsh onions, and tatami mats. The investigation is to be performed by a panel of government agencies comprising MAFF, the Ministry of Economics, Trade, and Industry (METI), and the Ministry of Finance (MOF), to determine whether rising levels of imports seriously injure Japan's domestic food industry. The results of this investigation are expected by the end of April. It is then expected to take several more months to make a final determination on whether safeguard measures, such as a temporary increase in tariff rates or the imposition of import quotas, should be implemented.

In late January 2001, MAFF announced that it would also begin a preliminary safeguard investigation on

Chinese Total Horticultural Exports to Japan in 2000 by Value

Total Value: \$1.95 Billion



Source: World Trade Atlas

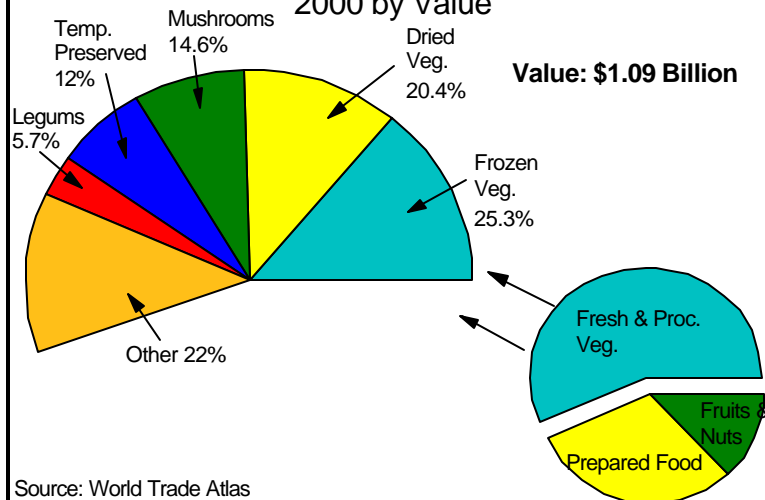
the following products: garlic, eggplant, wakame, seaweed, eel, bonito, dried shiitake mushrooms, and plywood. While no schedule has been announced for these investigations, the following products were put on an emergency fast track basis: shiitake mushrooms, tomatoes, colored peppers, onions, sawn lumber, and laminated lumber. In part, these investigations reflect Japanese unease with their merchandise trade deficit with China, which reached \$24.8 billion in CY 2000.

The Japanese trade industry has voiced concern over the need for possible safeguard measures. Japan's food service and processing industries could suffer serious damage if the market prices of imported vegetables increased sharply due to possible safeguard measures.

If a safeguard measure is introduced, it would affect all suppliers, not just China, or South Korea (responsible for surging imports of tomatoes and colored peppers). A safeguard action could have a negative impact on U.S. exports of onions and tomatoes to Japan, which combined were valued at \$35 million in CY 2000. Both items were targeted for preliminary surveillance. Imported

Breakdown of Chinese Vegetables Exports to Japan in 2000 by Value

Value: \$1.09 Billion



Source: World Trade Atlas

onions accounted for an estimated 15 percent of Japan's onion consumption in CY 2000.

According to trade reports, China's Ministry of Foreign Trade and Economic Cooperation denies allegations of any possible vegetable dumping in Japan. The Ministry claims that the production costs of

China's vegetables are much lower than the prices of those vegetables exported to Japan. Increased imports in recent years have given China a significant share (upwards of 40 percent) of Japan's vegetable market, putting pressure on the local farm produce prices.

Changing Times in Japan's Vegetable Market: According to the U.S. Agricultural Minister-Counselor's Office in Tokyo, vegetable production in Japan had been declining even before the rise in Chinese vegetable shipments, as most Japanese vegetable farmers are elderly and it takes about 3 times as much labor to produce vegetables as it does other products, such as rice. The declines are primarily in heavy, low-value, labor-intensive vegetables such as cabbage. In 1999, vegetable production totaled 13.9 million tons (valued at \$18.4 billion), up from 13.6 million tons in 1998, but down from 14.3 million tons in 1997 and 14.6 million tons in 1996. While cabbage, daikon radish, and potatoes are down, items showing growth recently include tomatoes, strawberries, lettuce and specialty items.

Japanese supermarkets have been experimenting with vegetable production in China for about 8 to 10 years, but it is only in the past two years that Chinese quality has been good enough to allow large scale sales to Japan. For example, Chinese producers are now using Japanese seeds and other Japanese technology to improve their skills in vegetable production. Consequently, Chinese vegetables are now reportedly almost indistinguishable from Japanese vegetables. Other market factors: It only takes 16 hours for vegetables to get from Qingdao, China to Kobe, Japan by ship. The landed price for most vegetables is about half of the Japanese price. During a recent visit to a local supermarket by the U.S. Agricultural Minister-Counselor's office, it was observed that Chinese broccoli was selling for \$.90 per piece, compared to the local broccoli price of \$1.80 per piece.

(Prepared by Emanuel McNeil and Mathew Gerard. For information on vegetable production and trade, contact Emanuel McNeil at 202-720-2083.)